



Congressman Jim Jordan (R-OH), RSC Chairman
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Repeal Obamacare's Medical Loss Ratio Requirements

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Background: On June 1, 2011, Rep. Tom Price (R-GA) introduced H.R. 2077, the MLR Repeal Act.

Obamacare imposed numerous regulations on insurance companies, one of which was requiring specific and arbitrary medical loss ratios (MLRs). The MLR for a medical insurance company is the percentage of total losses paid plus adjusted expenses, all divided by total earned premiums. In other words, the medical loss ratio is the amount that a health insurance provider spends to pay for medical care, out of the amount of money they take in for services. Under the MLR provision, insurers in the individual and small group market must meet an 80% MLR, while those in large markets must meet an 85% MLR. If insurers do not reach this threshold, they will be required to send rebates to those paying premiums.

- **What The Bill Will Do:** This bill repeals Obamacare's MLR requirements.
- **Why This Is Necessary:** 80% or 85% of premiums collected must be spent on claims or quality improvement activities. While this may sound like an admirable requirement, when applied it actually creates perverse incentives. To calculate the MLR, the Department of Health and Human Services (HHS) determined which costs would be considered administrative rather than for clinical or quality improvement purposes. Included in administrative costs are funds spent to limit fraud and abuse. This creates a clear disincentive for insurers to invest in fraud prevention, and it is counterintuitive that insurers could potentially be penalized for implementing changes they are required to make. As a result of this provision, many small and medium-sized insurance companies are finding it more difficult to stay in business thereby limiting choices for consumers.
- **Government Gone Wild:** Along with many other waivers being offered from Obamacare, HHS will grant waivers from the MLR requirements when a state demonstrates that application of these requirements is likely to destabilize the market. The agency has already granted MLR waivers to Maine, New Hampshire, Nevada, Iowa, and Kentucky—states with a combined population of over 12 million people. In addition, eight other states have outstanding requests for a waiver. The widespread demand for waivers indicates a need for serious reconsideration of the MLR requirements.

Conclusion: MLR requirements in Obamacare are unnecessary and are counterproductive interventions in the free market. They hurt companies while discouraging fraud prevention. These requirements ought to be repealed.

MEMBER ACTION ITEM: All RSC Members are encouraged to support and cosponsor H.R. 2077. Please contact Natalie Burkhalter at Natalie.Burkhalter@mail.house.gov to cosponsor this legislation.

If you would like to participate in the RSC Repeal Task Force, please email Rick.Eberstadt@mail.house.gov.

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